



Parliament of Australia  
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale  
Leader of the Australian Greens  
Parliament House  
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Restoring Trust in Trusts* (letter of 23 June 2016).

The response to this request will be released on the PBO website ([www.pbo.gov.au](http://www.pbo.gov.au)).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

26 June 2016



## Policy costing—during the caretaker period for the 2016 general election

<b>Name of proposal:</b>	<b>Restoring Trust in Trusts</b>
Summary of proposal:	The proposal would reform the taxation treatment of discretionary trusts (except trusts used for farming businesses) so that they are taxed as companies.  The proposal would have effect from 1 September 2016.
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	22 June 2016 <a href="http://greens.org.au/sites/greens.org.au/files/Tax%20Avoidance%20Package_0.pdf">http://greens.org.au/sites/greens.org.au/files/Tax%20Avoidance%20Package_0.pdf</a>
Date costing request received:	23 June 2016
Date costing completed	24 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

### Costing overview

This proposal would be expected to increase both the fiscal and underlying cash balances by \$3,300 million over the 2016-17 Budget forward estimates period. This reflects an increase in revenue of \$3,400 million and an increase in departmental expenditure of \$100 million over this period.

This proposal would have an ongoing impact that extends beyond the 2016-17 Budget forward estimates period. The financial impact would be expected to decrease over the period to 2026-27, reflecting the changes in the company tax rate.

Departmental costs are expected to increase by \$40 million in 2016-17 and \$20 million per annum from 2017-18 as a result of the proposal. This is based on the cost of implementing other large-scale tax proposals.

A detailed breakdown of this costing is presented at [Attachment A](#).

This costing is considered to be of low reliability. The model relies on several assumptions and aggregate trust distribution data. Possible behavioural responses to this proposal are extremely uncertain.

**Table 1: Financial implications (outturn prices)<sup>(a)(b)</sup>**

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	460.0	880.0	980.0	980.0	<b>3,300.0</b>
Underlying cash balance	460.0	880.0	980.0	980.0	<b>3,300.0</b>

(a) A positive number indicates an increase in the relevant budget balance, a negative number a decrease.

(b) Figures may not sum to totals due to rounding.

## Key assumptions

The Parliamentary Budget Office has made the following assumptions in relation to this proposal:

- Trust income is comprised of income from interest, dividends, capital gains and general sources.
- Trust income is assumed to be distributed in the following way:
  - 30 per cent to individuals (of which 70 per cent are Australian residents and 30 per cent are non-residents)
  - 20 per cent to superannuation funds
  - 50 per cent to companies.
- Taxing discretionary trusts as companies would mean that the imputation system for franked dividends that applies to companies would also apply to trust distributions.
- It is assumed that 50 per cent of income would be retained in trusts in response to this proposal.
  - This would mean that 100 per cent of the trust income is taxed at the company tax rate, however only 50 per cent of the after-tax amount would be distributed to beneficiaries as a 'dividend', which would be eligible for franking credits at the company tax rate, as per company tax arrangements.
- Generally, superannuation funds currently have a tax rate of 15 per cent and would receive a refund of a portion of the tax paid at the company tax rate through the imputation system.
  - If superannuation funds were to invest in trusts which do not distribute 100 per cent of their income, they would not be able to access refunded imputation credits and would face a higher effective tax rate on undistributed income.
  - Under this proposal, it is assumed that superannuation funds would only invest in trusts that distribute 100 per cent of their income and would therefore continue to have an effective tax rate of 15 per cent.

- It is assumed that on average trusts would pay tax on a quarterly basis.
- It is assumed that, in response to this proposal, a proportion of trust beneficiaries would find alternative investments that would give them a similar return to their trust structure, which means that the proposal does not raise as much revenue as it would have done in the absence of this behavioural response.

## Methodology

The financial impact of this proposal was estimated by calculating the tax revenue to be paid by affected discretionary trusts at the company tax rate and the tax paid by beneficiaries on their distributions under the proposal, less the amount of base tax to be paid on distributions from trusts that is expected to be collected over the same period. Base trust distribution amounts are grown at a rate equivalent to growth in Gross Domestic Product.

Revenue estimates have been rounded to the nearest \$100 million. Expense estimates have been rounded to the nearest \$10 million.

## Data sources

- Trust distribution data from Australian Taxation Office (ATO) Taxation Statistics
- Australian tax treaties data from the Treasury website
- Australian Bureau of Statistics *International Investment Position, Australia: Supplementary Statistics* Cat. No. 5352.0
- Taxation parameters from the 2016 Pre-election Economic and Fiscal Outlook
- 2016-17 Budget Paper No. 2

## Attachment A: Restoring Trust in Trusts— financial implications

**Table A1: Restoring Trust in Trusts— Financial implications (outturn prices)<sup>(a)(b)</sup>**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
<b>Impact on fiscal and underlying cash balances</b>					
Revenue	500.0	900.0	1,000.0	1,000.0	<b>3,400.0</b>
Departmental expenses - ATO	-40.0	-20.0	-20.0	-20.0	<b>-100.0</b>
<b>Total</b>	<b>460.0</b>	<b>880.0</b>	<b>980.0</b>	<b>980.0</b>	<b>3,300.0</b>

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.